



WEINLANDER FITZHUGH

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CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY EVART, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2004

67-7501

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Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CITY OF EVART-LOCAL DEV. FIN. AUTH.	County OSCEOLA
Audit Date 6/30/04	Opinion Date 11/10/04	Date Accountant Report Submitted to State: 12-28-04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes to the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH			
Street Address 601 BEECH STREET	City CLARE	State MI	ZIP 48617
Accountant Signature <i>Shannon R. Wilson CPA</i>		Date 12-28-04	

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INDEPENDENT AUDITORS' REPORT

November 10, 2004

Development Board
City of Ewart - Local Development Finance Authority
Ewart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Ewart - Local Development Finance Authority, Ewart, Michigan, a component unit of the City of Ewart, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Ewart - Local Development Finance Authority as of June 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2003.

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WEINLANDER FITZHUGH

Development Board
City of Evert - Local Development Finance Authority
November 10, 2004
Page 2

Required Supplemental Information

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Evert - Local Development Finance Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Our discussion and analysis of the City of Evart - Local Development Finance Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004.

Financial Highlights

The Authority's net assets increased by \$86,420 or 8%. Program revenues were \$288,400 or 43% of total revenues, and general revenues were \$382,011 or 57%.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Evart - Local Development Finance Authority financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the Government-wide financial statements by providing information about the Authority's most significant funds – the General and Debt Service Funds, with all other funds presented in one column as nonmajor funds. Individual fund information for non-major funds is found in statements in a later section of this report. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Reporting the Authority as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Authority's net assets as a way to measure the Authority's financial position. The change in net assets provides the reader a tool to assist in determining whether the Authority's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of Authority.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The Authority's fund financial statements provide detail information about the most significant funds – not the Authority as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue.

Governmental Funds

Most of the Authority's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Authority's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Government-wide Financial Analysis

The statement of net assets provides the perspective of the Authority as a whole. Exhibit A provides a summary of the Authority's net assets as of June 30, 2004:

Exhibit A	<u>Governmental Activities</u>
Assets	
Current and other assets	\$ 524,988
Capital assets - net of accumulated depreciation	<u>820,873</u>
Total assets	<u>1,345,861</u>
Liabilities	
Current liabilities	114,100
Long-term liabilities	<u>78,788</u>
Total liabilities	<u>192,888</u>
Net Assets	
Invested in property and equipment - net of related debt	742,085
Restricted	35,392
Unrestricted	<u>375,496</u>
Total net assets	<u><u>\$ 1,152,973</u></u>

This analysis focuses on net assets. The Authority's net assets were \$1,152,973 at June 30, 2004. Capital assets totaling \$742,085 compares the original costs, less depreciation of the Authority's capital assets to long-term debt to finance the acquisition of those assets. The debt will be repaid from general revenue. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the Authority's ability to use those net assets for day-to-day operations.

CITY OF EVART -- LOCAL DEVELOPMENT FINANCE AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2004

The \$375,496 in unrestricted net assets of governmental type activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Authority as a whole are reported in the statement of activities (Exhibit B), which shows the change in net assets for the year ended June 30, 2004. Since this is the first year the Authority has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Exhibit B		Governmental Activities
Revenue		
Program revenue:		
Grants and contributions		\$ 288,400
General revenue:		
Taxes		355,110
Rent		24,000
Interest		2,701
Other		200
Total revenue		<u>670,411</u>
Function/Program Expenses		
General government		248,430
Community promotion		11,808
Community improvements		308,655
Interest on long-term debt		<u>15,098</u>
Total expenses		<u>583,991</u>
Increase in Net Assets		<u><u>\$ 86,420</u></u>

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$583,991. Certain activities were partially funded from organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$355,110 in taxes, \$24,000 from incubator building rent, \$2,701 in interest and \$200 in miscellaneous revenues.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2004

The Authority experienced an increase in net assets of \$86,420. Key reasons for the change in net assets were a decrease in the general government expenses. The major general government expenses that decreased during the year were the rail-trail project, tax tribunal rebates and tax audit. The decreases in expenses were off set by increases in payroll and a decrease in property tax revenue. The increase will be used for future operations of the Authority. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The Authority's Funds

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority's governmental funds reported a combined fund balance of \$410,888, which is above last year's total of \$466,968. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2004 and 2003.

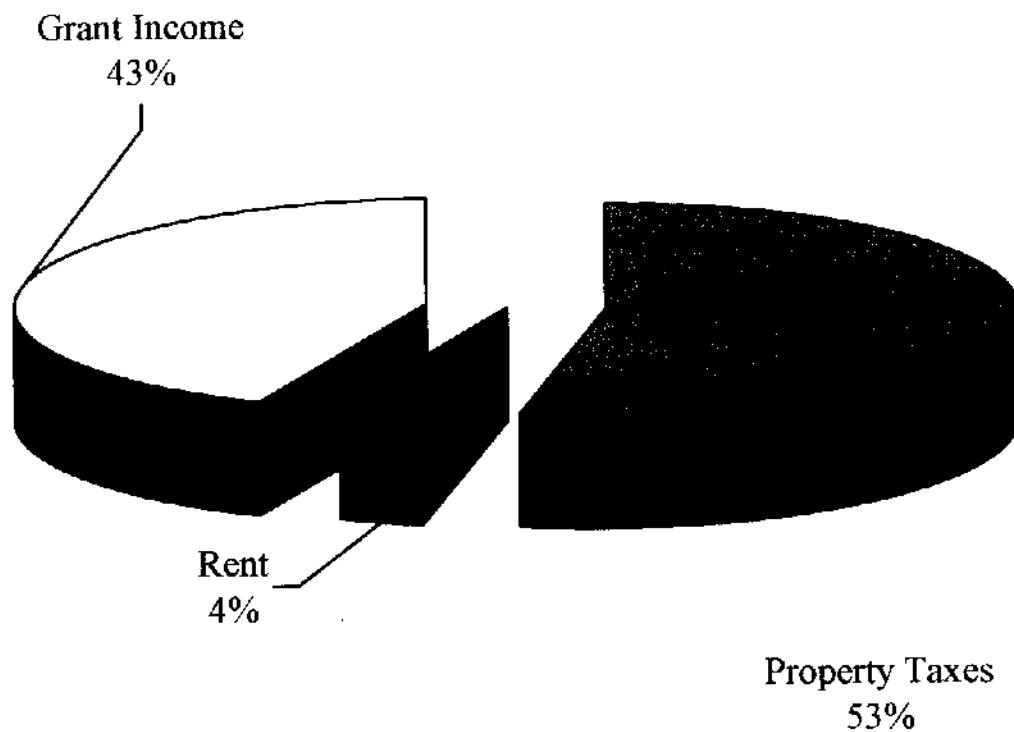
	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u>
General	\$ 375,496	\$ 430,496	\$ (55,000)
Debt service	9	1,279	(1,270)
Capital project	<u>35,383</u>	<u>35,193</u>	<u>190</u>
Total	<u>\$ 410,888</u>	<u>\$ 466,968</u>	<u>\$ (56,080)</u>

- Our General Fund decreased \$55,000. The decrease is mainly due to a decrease in tax revenue. The decrease in revenue was offset by decreases general government expenditures including rail-trail project, tax tribunal rebates and tax audits.
- Our Debt Service Funds decreased \$1,270. The decrease is due the pay-off of the 1992 Local Development Bonds.
- Our Capital Project Fund increased \$190. The increase is due to interest income.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

As the graph below illustrates, the largest portion of the Authority's revenue came from the property taxes.

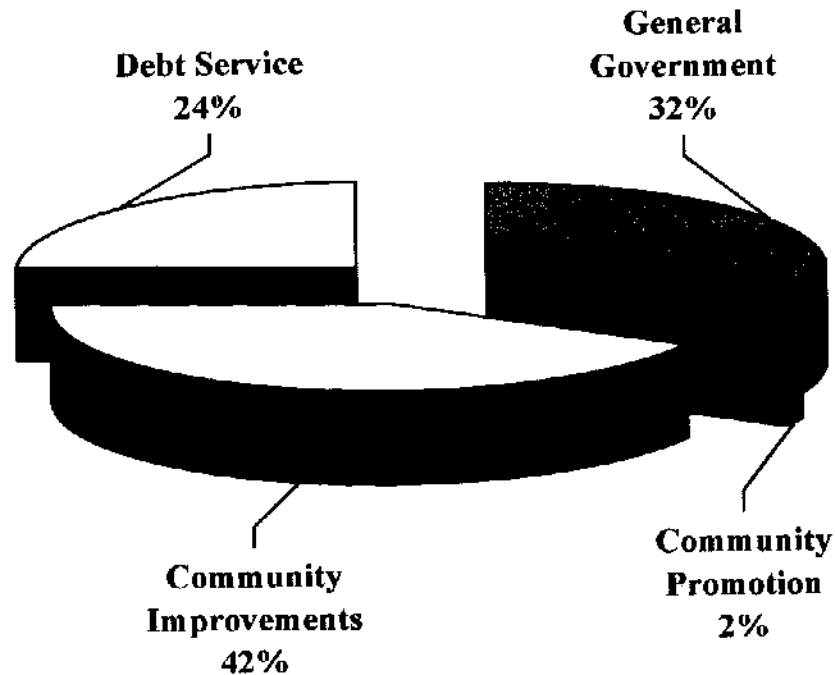
Sources of Revenues



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The graph below illustrates, 42% of the Authority's resources are spent on community improvements. Another 24% is spent on the payment of debt, while 34% is spent for general government and community promotion expenses such as administrative costs, including occupancy costs, and promoting community events.

Expenditures



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The chart below compares current year expenditures with prior year.

	<u>2004</u>	<u>2003</u>
<i>Expenditures by Function</i>		
General government	\$230,701	\$ 321,194
Community promotion	11,808	5,995
Community improvements	308,655	0
Debt service	175,327	180,809
Capital outlay	<u>0</u>	<u>2,617</u>
 Total	 <u>\$ 726,491</u>	 <u>\$ 510,615</u>

Expenditures are up by approximately \$215,876 or 42% over the prior year mostly due to increased spending on community improvements for the Riverside Park expansion project. The increase in community improvements were off set by a decrease in general government expenses as noted above.

General Fund Budgetary Highlights

Over the course of the year, the Authority revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budget revenues increased by \$12,000 from the original budget due to an increase in rent revenue. These increases were off set by a decrease in budgeted property taxes.
- Budgeted expenditures decreased by \$360,088 from the original budget due to the Authority budgeting for the tax refund to the City of Evart in current year. The tax refund was an expenditure in the prior year and was corrected in the final amended budget. The decrease was also due to final amended budget not reflecting any capital outlay expenditures. The decreases were off set by an increase in payroll expenditures.
- Budget net other financing sources (uses) decreased by \$25,416. The decrease in transfers to other funds was due a decrease in transfers expected from the City of Evart - Downtown Development Authority.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The differences between the budget and the final actual amounts are as follows:

- Actual revenues were under budgeted revenue by \$175,035. The difference is due to the receipt less grant income for the Riverside Park expansion. The State Education tax receipts were also under budget due to the Authority budgeting the receipt of the full amount of the State Education Tax when the Authority is only eligible to receive a portion of the tax revenue.
- Actual expenditures were under the budgeted expenditures by \$107,035. The difference is due to Riverside Park expansion project. The project is under budget due to a decrease in grant income received.

Capital Assets

At June 30, 2004, the Authority had \$913,445 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. There were no additions to capital assets during the current year.

	<u>2004</u>	<u>2003</u>
Land	\$ 338,300	\$ 338,300
Buildings and improvements	566,145	566,145
Furniture and fixtures	<u>9,000</u>	<u>9,000</u>
Total capital assets	913,445	913,445
Less accumulated depreciation	<u>92,572</u>	<u>74,843</u>
Net capital assets	<u><u>\$ 820,873</u></u>	<u><u>\$ 838,602</u></u>

We do not anticipate any significant capital additions in the upcoming fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Authority had \$78,788 in long-term debt outstanding versus \$240,072 in the previous year – a change of 66%. These long-term debt consisted of the following:

	<u>2004</u>	<u>2003</u>
Bonds	\$ 0	\$ 100,000
Capital lease	<u>78,788</u>	<u>140,072</u>
	<u><u>\$ 78,788</u></u>	<u><u>\$ 240,072</u></u>

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2004

The Authority's outstanding debt of \$78,788 is significantly below the statutorily imposed limit.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in property tax revenue next year as the tax base continues to be adjusted downward. We will need to adjust Authority expenditures in response to any revenue shortfall.

Requests For Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the City of Evart - Local Development Finance Authority. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Evart - Local Development Finance Authority
127 N. River Street
Evart, MI 49631

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 425,140
Receivables:	
Interest receivable	2
Due from other governmental units	99,846
Capital assets less accumulated depreciation of \$92,572	<u>820,873</u>
Total assets	<u>1,345,861</u>
<u>Liabilities</u>	
Accounts payable	2,917
Accrued payroll and other liabilities	9,369
Due to other governmental units	101,814
Long-term liabilities:	
Due within one year	57,496
Due in more than one year	<u>21,292</u>
Total liabilities	<u>192,888</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	742,085
Restricted for debt service	9
Restricted for capital projects	35,383
Unrestricted	<u>375,496</u>
Total net assets	<u><u>\$ 1,152,973</u></u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Statement of Activities
For the Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants/</u> <u>Contributions</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Change in Net</u> <u>Assets</u>
Governmental activities			
General government	\$ 248,430	\$ 0	\$ (248,430)
Community promotion	11,808	0	(11,808)
Community improvements	308,655	288,400	(20,255)
Interest on long-term debt	<u>15,098</u>	<u>0</u>	<u>(15,098)</u>
Total governmental activities	<u>\$ 583,991</u>	<u>\$ 288,400</u>	<u>(295,591)</u>
General revenues:			
Property taxes, levied for general purposes			355,110
Rent			24,000
Interest			2,701
Miscellaneous			<u>200</u>
			<u>382,011</u>
Change in net assets			86,420
Net assets - beginning of year			<u>1,066,553</u>
Net assets - end of year			<u>\$ 1,152,973</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Governmental Funds
Balance Sheet
June 30, 2004

	General	Debt Service Fund	Other Nonmajor Governmental Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 389,750	\$ 7	\$ 35,383	\$ 425,140
Receivables:				
Interest receivable	0	2	0	2
Due from other governmental units	99,846	0	0	99,846
Total Assets	<u>\$ 489,596</u>	<u>\$ 9</u>	<u>\$ 35,383</u>	<u>\$ 524,988</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts payable	\$ 2,917	\$ 0	\$ 0	\$ 2,917
Accrued payroll and other liabilities	9,369	0	0	9,369
Due to other governmental unit	101,814	0	0	101,814
Total liabilities	<u>114,100</u>	<u>0</u>	<u>0</u>	<u>114,100</u>
<u>Fund Balances</u>				
Reserved for debt service	0	9	0	9
Reserved for capital projects	0		35,383	35,383
Unreserved:				
Undesignated	375,496	0	0	375,496
Total fund balances	<u>375,496</u>	<u>9</u>	<u>35,383</u>	<u>410,888</u>
Total Liabilities and Fund Balances	<u>\$ 489,596</u>	<u>\$ 9</u>	<u>\$ 35,383</u>	<u>\$ 524,988</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004

Total fund balances - governmental funds	\$410,888
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
Cost of the capital assets	913,445
Accumulated depreciation	(92,572)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Notes payable	<u>(78,788)</u>
Total net assets - governmental activities	<u><u>\$1,152,973</u></u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Governmental Funds

Statement of Revenues, Expenditures, and Change in Fund Balance
For the Year Ended June 30, 2004

	General	Debt Service Fund	Other Nonmajor Governmental Fund	Totals
<u>Revenues</u>				
Taxes:				
Property	\$ 234,088	\$ 105,629	\$ 0	\$ 339,717
State education	15,393	0	0	15,393
Rent	24,000	0	0	24,000
Interest	2,484	27	190	2,701
Grant income	288,400	0	0	288,400
Miscellaneous	200	0	0	200
	<u>564,565</u>	<u>105,656</u>	<u>190</u>	<u>670,411</u>
Total revenues				
<u>Expenditures</u>				
Operating:				
General government	230,701	0	0	230,701
Community promotion	11,808	0	0	11,808
Community improvements	308,655	0	0	308,655
Debt service:				
Principal	61,284	100,000	0	161,284
Interest and fees	7,117	6,926	0	14,043
	<u>619,565</u>	<u>106,926</u>	<u>0</u>	<u>726,491</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(55,000)</u>	<u>(1,270)</u>	<u>190</u>	<u>(56,080)</u>
Fund balance at beginning of year, as previously stated	430,496	1,279	32,415	464,190
Prior period adjustment	<u>0</u>	<u>0</u>	<u>2,778</u>	<u>2,778</u>
Fund balance - beginning of year - restated	<u>430,496</u>	<u>1,279</u>	<u>35,193</u>	<u>466,968</u>
Fund balance - end of year	<u>\$ 375,496</u>	<u>\$ 9</u>	<u>\$ 35,383</u>	<u>\$ 410,888</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures, and
Change in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balance - total governmental funds	\$ (56,080)
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(17,729)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Other costs related to debt issuance and retirement use governmental fund resources but recognize them as expenses through amortization on the statement of net assets	
Repayment of bonds	100,000
Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	61,284
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(1,055)
Change in net assets of governmental activities	<u>\$ 86,420</u>

See accompanying notes to financial statements

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Evart - Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Evart - Local Development Finance Authority:

Reporting Entity

On December 17, 1990, the City Council of the City of Evart, Osceola County, Michigan, established a Local Development Finance Authority (Authority) to provide necessary infrastructure services to the companies within the industrial park and to create a positive surrounding, and to promote and attract additional business growth within the Local Development Finance Authority boundaries. The life of the Authority is fifteen years, after which time all assets acquired revert back to the City of Evart. The agreement was amended June 10, 1993, to extend the life of the Authority to the year 2023. The Authority is a component unit of the City of Evart.

The Authority is governed by a ten-member appointed board.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

General Fund – This fund is the general operating fund of Authority. It is used to account for all financial transaction except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

Additionally, the Authority reports the following nonmajor governmental fund:

Capital Project Fund – The Capital Project Fund is used to record cost of major construction projects of the Authority. Included are transactions related to the additions and improvements EDA industrial park.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings, furniture and fixtures are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, furniture and fixtures are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Building improvements	20 Years
Furniture and fixtures	20 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounting Change – Effective July 1, 2003, the Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Authority's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Authority's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Authority's activities have been provided. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for the General Fund prior to the expenditure of monies in a fiscal year.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority's Project Consultant submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended, by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
3. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information

P.A. 621 of 1978, Section 18(1), as amended, provides that local units shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
General government	\$ 216,400	\$ 230,701	\$ (14,301)
Debt service	67,600	68,401	(801)

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

At year-end, the Government's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$ 425,140</u>

The Authority had no investments as of June 30, 2004.

The bank balance of the Authority's deposits is \$412,546, of which \$100,000 is covered by federal depository insurance.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 4 – CAPITAL ASSETS

Capital asset activity of the Authority for the current year was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 338,300	\$ 0	\$ 0	\$ 338,300
Capital assets being depreciated:				
Buildings	441,145	0	0	441,145
Building improvements	125,000	0	0	125,000
Furniture and fixtures	9,000	0	0	9,000
Subtotal	575,145	0	0	575,145
Less accumulated depreciation for:				
Buildings	55,143	11,029	0	66,172
Building improvements	12,500	6,250	0	18,750
Furniture and fixtures	7,200	450	0	7,650
Subtotal	74,843	17,729	0	92,572
Net capital assets being depreciated	500,302	(17,729)	0	482,573
Governmental Activities, Total				
Capital Assets - Net of Depreciation	\$ 838,602	\$ (17,729)	\$ 0	\$ 820,873

Depreciation expense was charged to programs of the Authority as follows:

Governmental Activities:	
General government	\$ 17,729

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 5 – LONG-TERM DEBT

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2003	Additions	Retirements and Adjustments	Balance June 30, 2004	Amount Due Within One Year
Bonds	\$ 100,000	\$ 0	\$ 100,000	\$ 0	\$ 0
Capital lease	140,072	0	61,284	78,788	57,496
	<u>\$ 240,072</u>	<u>\$ 0</u>	<u>\$ 161,284</u>	<u>\$ 78,788</u>	<u>\$ 57,496</u>

The Authority is indebted on a capital lease obligation dated October 9, 1998 for a portion of the cost to construct a building within the industrial park with Citizens Bank in the amount of \$350,000. The lease calls for monthly installments of \$5,632, including interest at 7.2%.

The annual requirements to amortize bonds outstanding as of June 30, 2004 including interest payments are as follows:

<u>Year End June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 57,496	\$ 3,556	\$ 61,052
2006	21,292	325	21,617
Total	<u>\$ 78,788</u>	<u>\$ 3,881</u>	<u>\$ 82,669</u>

NOTE 6 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

State of Michigan
Office of Retirement Services
P.O. Box 30171
Lansing, MI 48909-7671

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 6 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution of 11 percent of gross wages.

Annual Pension Costs – For year ended June 30, 2004, the Authority's annual pension cost of \$9,340 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: (i) a 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) 3 to 4 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

Three year trend information as of December 31, 2003 follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual pension cost	\$ 8,844	\$ 9,589	\$ 9,340
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	70,718	85,338	104,092
Actuarial accrued liability	80,564	96,296	78,361
Unfunded (overfunded) AAL	9,486	10,958	(25,731)
Funded ratio	88%	89%	133%
Covered payroll	79,658	81,957	81,946
UAAL as a percentage of covered payroll	12%	13%	(32%)

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

NOTE 8– PRIOR PERIOD ADJUSTMENT

Fund balance was increased by \$2,778. This adjustment was recorded to correct a prior period payable to the federal government.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2004

NOTE 9 – OPERATING LEASES

The Authority leases the incubator building to MacLellan Integrated Services, Inc. under an operating leases expiring in April 30, 2005.

Minimal future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2004 for each of the indicated years and in the aggregate are:

	<u>Amount</u>
June 30, 2005	<u>\$ 20,000</u>

NOTE 10 – ECONOMIC DEPENDENCY

The Authority received approximately 91% of their property tax revenue from one taxpayer. Due to the significance of this revenue source to the Authority, the Authority is considered to be economically dependent.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

Required Supplemental Information

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Taxes:			
Property	\$ 240,000	\$ 225,000	\$ 234,088
State education	106,900	106,900	15,393
Rent	0	27,000	24,000
Interest	5,000	5,000	2,484
Grant income	375,700	375,700	288,400
Miscellaneous	0	0	200
Total revenues	<u>727,600</u>	<u>739,600</u>	<u>564,565</u>
<u>Expenditures</u>			
General government	412,625	216,400	230,701
Community promotion	7,000	12,000	11,808
Community improvement	430,600	430,600	308,655
Debt service	67,600	67,600	68,401
Capital outlay	168,863	0	0
Total expenditures	<u>1,086,688</u>	<u>726,600</u>	<u>619,565</u>
Excess (deficiency) of revenues over expenditures	<u>(359,088)</u>	<u>13,000</u>	<u>(55,000)</u>
<u>Other Financing (Uses)</u>			
Operating transfers from other governmental units	36,000	10,000	0
Operating transfers out to other funds	(67,584)	(67,000)	0
Total other financing sources (uses)	<u>(31,584)</u>	<u>(57,000)</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(390,672)</u>	<u>(44,000)</u>	<u>(55,000)</u>
Fund balance - beginning of year	<u>430,496</u>	<u>430,496</u>	<u>430,496</u>
Fund balance - end of year	<u>\$ 39,824</u>	<u>\$ 386,496</u>	<u>\$ 375,496</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

Other Supplemental Information

Balance Sheet

Nonmajor Governmental Fund

June 30, 2004

		Capital Projects Fund
		EDA Air Industrial Park Fund
	<u>ASSETS</u>	
Cash and cash equivalents		\$ 35,383
	<u>FUND BALANCE</u>	
<u>Fund Balance</u>		
Reserved for capital projects		\$ 35,383

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
 Other Supplemental Information
 Statement of Revenues, Expenditures,
 and Changes in Fund Balances - Nonmajor Governmental Fund
For the Year Ended June 30, 2004

	Capital Project Fund
	<u>EDA Air Industrial Park Fund</u>
<u>Revenues</u>	
Local sources:	
Interest	<u>\$ 190</u>
 Fund balance at beginning of year, as previously stated	 32,415
 Prior period adjustment	 <u>2,778</u>
 Fund balances - beginning of year - restated	 <u>35,193</u>
 Fund balances - end of year	 <u><u>\$ 35,383</u></u>

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY
Schedule of Bonded Indebtedness
1992 Local Development Bond Series 1992 A
For the Year Ended June 30, 2004

PURPOSE The bonds were issued to pay part of the cost of the acquisition, construction and installation of certain water, sanitary sewer, storm sewer and street improvements which will benefit the City of Evart Industrial Park.

DATE OF ISSUE June 1, 1992

AMOUNT OF ISSUE \$995,000

AMOUNT RETIRED

During prior years	\$ 895,000	
During current year	<u>100,000</u>	<u>995,000</u>

<u>BALANCE OUTSTANDING - June 30, 2004</u>		<u><u>\$ 0</u></u>
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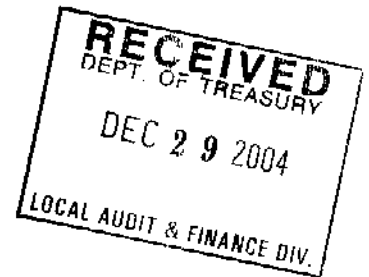
WEINLANDER FITZHUGH

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November 10, 2004



Board of Directors
City of Ewart – Local Development
Finance Authority
City of Ewart, Michigan

This letter is intended to inform the Authority Board about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Authority Board.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

Our audit of the financial statements of the Authority for the year ended June 30, 2004 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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RSM McGladrey Network

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WEINLANDER FITZHUGH

Board of Directors
City of Ewart – Local Development
Finance Authority
November 10, 2004
Page 2

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

Accounting Policies and Alternative Treatments

Management and the Authority Board have the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. The significant accounting policies adopted by the Authority are described in Footnote 1 to the financial statements. The Authority adopted several significant Governmental Accounting Standards Board (GASB) Statements in the current year including:

GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments

GASB No. 37, Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments: Omnibus

GASB No. 38, Certain Financial Statement Note Disclosures

GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

Disagreements with Management

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



WEINLANDER FITZHUGH

Board of Directors
City of Ewart - Local Development
Finance Authority
November 10, 2004
Page 3

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Authority.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Weinlander Fitzhugh